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HRM Reform in the Indonesian Civil Service: Towards Strategic Fit?

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Abstract

This paper investigates the best fit approach of strategic human resource management (HRM) in the Indonesian civil service and examines factors influencing the prevalence of best fit. Involving 53 senior officials and one focus group discussion from eight Indonesian government agencies through semi structured interviews, the finding indicates that some HRM policies, formulated by the central agencies, are still contradicting and hinder best fit. However, the best fit concept can be seen in the line agencies which have been granted status as 'reformed agencies'. Factors influencing best fit include knowledge of contemporary HRM and commitment from the line agencies' leaders.

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1. Introduction

For the last three decades, research on strategic HRM has been dominant in the HRM literature. Strategic HRM remains one of the most popular and rapidly growing areas of HRM research (Lepak & Shaw, 2008; Guest, 2011; Samnani & Singh, 2013). What differentiates strategic HRM from traditional HRM is that it shifts its focus from the micro analytic research (employee level) to a more macro level of analysis (organisational level) or strategic perspective (Delery & Doty, 1996; Lepak & Snell, 2002; Lepak & Shaw, 2008). Traditional HRM focuses more on functional aspects of the field such as recruitment and selection, remuneration, performance management and training, and how these practices impact on employee performance (see for example, Delery & Doty, 1996; Lepak & Shaw, 2008; Wright & Boswell, 2002). Meanwhile, strategic HRM focuses more on how the functional aspects impact on the organisation's performance or, in other words, it seeks the HRM – organisational performance relationship (see for example, Becker & Huselid, 1998; Lepak & Shaw, 2008).

While studies examining strategic HRM in the private sector are well documented (see for example MacDuffie, 1995; Chadwick, 2010; Kepes & Delery, 2007; Samnani & Singh, 2013), studies examining this area in the civil service seem to have fallen behind (Andreescu, 2004; Manning, 2010). This may relate to the different characteristics of private and civil service organisations (see Manning, 2010; Shim, 2001). McCourt and Ramguttty-Wong (2003) argue that strategic HRM is a private-sector problem of how to maximise organisational performance in an atmosphere of intense competition. Even though strategic HRM is rooted in the private sector, Tompkins (2002) argues that the concept of strategic HRM holds considerable promise for improving government performance and the recent interest in strategic HRM reflects a growing awareness that human resources are the key to success in both civil and private service organisations. Therefore, this study aims to investigate the applicability of strategic HRM model by using the Indonesian civil service as a case study. The Indonesian civil service embracing a centralised

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HRM system offers challenges to the adoption of strategic HRM which suggests a more devolved HRM system (see for example Brewster & Larsen, 1992; Azmi & Mustaq, 2015; Zhu, Cooper, De Cieri, Thomson, & Zhao, 2008).

2. Strategic HRM fit

Although research on strategic HRM has constantly increased, there is little consensus about what constitutes strategic HRM. Becker and Huselid (1998) are of the view that much of the work in this area is organised around several themes and research approaches that set it apart from conventional research in the field of HRM (also see Lengenick-Hall, Lengenick-Hall, Andrade & Drake, 2009). Among these themes, two contrasting approaches to strategic HRM continue to flourish. First, the best practice approach relies on the notion that some HRM practices are always better than others and that all organisations should adopt these best practices (Delery & Doty, 1996). Second, the best fit approach suggests that the choice of HRM practices should be designed in accordance with an organisation's specific context such as organisation strategy, societal value and management philosophy (Boxall & Purcell, 2011).

While researchers may take different approaches to strategic HRM, there are common features that researchers agree on. McCourt and Wong-Ramgutt (2003) highlight that among various arrays of strategic HRM studies, the most common feature agreed to is the notion of strategic integration; aligning HRM practices with organisations' overall strategic objectives (vertical integration) and with each other (horizontal integration) (also see Wright & McMahan, 1992; Zhu et al., 2008). One of the widely cited papers in this field, Wright and McMahan (1992), argue that the underlying concept around the strategic HRM field is the notion that human resources can positively contribute to an organisation's success when the HRM policies and practices are aligned with the organisation's goals. Two important dimensions embedded in this definition are highlighted: vertically, it links HRM practices with the strategic management process of the organisation, and horizontally, it emphasises that HRM practices should be linked one another. Boxall and Purcell (2011) describe these dimensions as best fit. In summary, central to strategic HRM are the notions that the HRM practices should be congruent with organisations' overall strategic objectives (vertical fit) and HRM practices should be congruent with one another (horizontal fit) (Delery & Doty, 1996; Kaufman, 2010). Based on this concept, this paper investigates vertical and horizontal fit of strategic HRM in the Indonesian civil service. Four major HRM practices are investigated in this study include recruitment and selection, performance management, remuneration and training. To achieve this objective, two research questions have been established as follows:

1. To what extent is vertical and horizontal fit practised in the Indonesian civil service?
2. What factors influence the prevalence of vertical and horizontal fit in the Indonesian civil service?

3. Research Setting: The Indonesian civil service

The Indonesian civil service embraces what Brown (2004) defines as a traditional model of personnel administration; a highly-centralised HRM system, 'career service' and security of tenure, lifelong employment, lower-ranks-focused recruitment and an internal based promotion system (also see Llorens & Battaglio, 2010). Prasojo (2012) examines that this traditional HRM model, such as uniformity of salary increments regardless of achievement, seniority-based promotion, and ineffective individual performance, has contributed to the poor performance of the Indonesian civil service. Since 2010, the Indonesian civil service has been undergoing HRM reforms aiming to improve the civil service quality. Various initiatives in HRM are introduced; more open and more transparent recruitment system, work goals based employee performance system, and performance based remuneration system (see Law 46/2011; Regulation-Ministry of Administrative and Bureaucratic Reform 63/2011). The introduction of the performance allowance significantly differentiates the Indonesian civil service's old remuneration system which puts an emphasis on the equality system. Line agencies granted status as 'reformed agencies' by the central agencies are eligible for the performance allowance scheme. On the other hand, line agencies that have not been granted status as 'reformed agencies' are not eligible for the performance allowance scheme.

4. Methodology

The study employed a qualitative case study approach to explore and to understand the meaning individuals or groups ascribe to a social or human problem (Creswell, 2009). As indicated by the research questions, this study investigates best fit in the Indonesian civil service and examines factors influencing its prevalence through the lived experience of the participants in the establishment process of HRM policies at the central agencies and their implementation at the line agencies. This can be achieved through qualitative research that allows the researcher to study the participants' experiences under real-world conditions, to represent views and perspectives of the participants, to cover the contextual conditions, to contribute insights into existing or emerging concepts that may help to explain human social behaviour, and to strive to use multiple sources of evidence rather than relying on a single source alone (Yin, 2012).

Semi-structured interviews involving 53 high officials ranging from the head of agency (minister's level), the vice governor, the vice minister, the secretary general, directors and senior managers and one focus group discussion of eight government agencies in the Indonesian civil service were employed. The eight purposively selected agencies consist of three central agencies mandated to formulate HRM policies, the National Bureaucratic Reform Team mandated to oversee the bureaucratic reform program at the national level, and four line agencies from both central government and local government mandated to implement the HRM policies. Of the four line agencies, two line agencies have been granted status as reformed agencies.

The face-to-face interviews ranged between 30 minutes to 60 minutes and mostly took place in the participants' offices; only one of the participants requested the interview to be conducted in the participant's residence. In addition, due to time constraints, two of the participants requested the questions be emailed and the participants responded to the questions by return email. Follow-up questions were also asked of one of the participants through email as clarification was needed in relation to the information obtained during the interview. The interviews were recorded subject to participants' agreement and transcribed.

Utilising NVIVO software to organise the data, the gathered data was analysed based on themes that emerged in relation to the theoretical propositions of the best fit concept. The collected data was categorised into themes and coded in accordance with the research questions to find patterns and interconnections.

5. Findings

As shown in Table 5.1, vertical and horizontal fit of HRM practices including recruitment and selection, performance management, remuneration, and training and development, is partly practised by the line agencies. Specifically, vertical and horizontal fit is practised in line agencies which have been granted status as reformed agencies. Their familiarity with contemporary HRM knowledge and having strong commitment and support from the line agencies' leaders that enable them to align HRM practices to meet their need. Here are responses from the reformed line agencies:

For us, this is not new, we have continuously synchronised HRM practices to meet our agency needs. Before HRM reform was officially implemented, we had implemented these kinds of practices.

I think leaders are dominant in determining the success of the HRM reform implementation; I can tell you that the success of this agency in implementing the HRM reform program ahead of others is only because the minister and all senior officials have a strong commitment towards reform. And because the commitment of the leaders is seen by all staff, we do not find any obstacles to socialising the program at all levels.

The reformed line agencies in this study have utilised the HRM policies to support the goals and objectives of their agencies by synchronising HRM practices; such as between recruitment planning, job analysis and recruitment, between remuneration and employee performance, and between performance management and promotion and training. However, the line agencies, which have not been granted status as reformed agencies, show insignificant change in their HRM systems compared to the old practices. They seem see new HRM policies merely as an obligation and do not link them to line agencies' goals and objectives. It is concluded that vertical and horizontal fit is more recognised in the line agencies granted status as reformed agencies.

Table 5.1 Summary of vertical and horizontal fit of HRM practices

HRM practices	Evidence of alignment	Agency A (granted status as a reformed agency)	Agency B (has yet to be granted status as a reformed agency)	Agency C (granted status as a reformed agency)	Agency D (has yet to be granted status as a reformed agency but has initiated reform in 2008)
Recruitment and Selection	Vertical	Recruitment planning aligns with the organisation's need	Lack of alignment with the organisation's need due to the absence of job analysis and workload analysis	Recruitment planning aligns with the organisation's need	Lack of alignment with the organisation's need due to the absence of job analysis and workload analysis.
	Horizontal	Entry level recruitment aligns with technical training programs	Lack of alignment between entry level recruitment and technical training programs	Entry level recruitment aligns with technical training programs	Entry level recruitment aligns with technical training programs
Performance Management	Vertical	Key Performance Indicators of each employee are cascaded from the organisational goals	Uniform indicators for all levels and lack of alignment with the organisational goals	Key Performance Indicators of each employee are cascaded from the organisational goals	Key Performance Indicators of each employee are cascaded from the organisational goals
	Horizontal	Employees' performance aligns with remuneration, technical training, and promotion	Lack of alignment with remuneration, training and promotion	Employees' performance aligns with remuneration, technical training, and promotion	Employees' performance aligns with remuneration, technical training, and promotion
Remuneration	Vertical	Performance based remuneration increases employees' motivation to achieve their working target.	Rank based remuneration demotivates employees to achieve their working target.	Performance based remuneration increases employees' motivation to achieve their working target	Performance based remuneration increases employees' motivation to achieve their working target
	Horizontal	Remuneration aligns with employees' performance	Lack of alignment with employees' performance and promotion.	Remuneration aligns with employees' performance	Remuneration aligns with employees' performance
Training and Development	Vertical	Technical training is linked to the organisational goals	Lack of alignment with skills and knowledge needed by the agencies	Technical training is linked to the organisational goals	Technical training is linked to the organisational goals
	Horizontal	Technical training aligns with promotion and performance improvement	Lack of alignment with promotion and performance improvement	Technical training aligns with promotion and performance improvement	Technical training aligns with promotion and performance improvement

6. Discussions

Vertical and horizontal fit is practised in line agencies granted status as reformed agencies. The results demonstrate that there has been consistency by the reformed line agencies in aligning HRM practices with the line agencies' goals and objectives and with one another even though these line agencies are bounded by HRM policies that do not support the vertical and horizontal fit concept. For example, although the promotion policy regulates that an employee's rank (length of service) should be firstly considered for promotion purpose, the reformed line agencies rely more on working performance than on rank. The training system, another example, especially pre-service training and in-service training managed by the central agencies, is not aligned with the line agencies' needs. However, the reformed line agencies are able to design technical training programs to meet their needs. This demonstrates that line agencies play an important role in executing HRM practices in their agencies and that the extent to which HRM practices are utilised to support the line agencies' goals and objectives seems to rely on the line agencies themselves. Although modification of all HRM policies is not possible, for example, the centralised recruitment system, the line agencies can still play a significant role in ensuring the internal processes such as recruitment planning and selection activities meet their needs. However, as specifically hinted at by the reformed line agencies, the centralised recruitment system has been acknowledged as one of the barriers preventing identification of the potential candidates needed by the line agencies.

Another finding is that familiarity with the contemporary HRM and strong commitment from the line agencies' leaders drives best fit in the line agencies. The fact that the reformed line agencies were familiar with the utilisation of HRM to support the line agencies' goals before the HRM reforms were nationally launched demonstrates that knowledge of contemporary HRM significantly influences the way line agencies conduct their HRM practices. In addition, strong commitment from the reformed line agencies' leaders has positively encouraged leaders of all working units within the line agencies to be actively involved in ensuring the HRM practices support the line agencies goals. Strong commitment by the leaders, among others, is demonstrated through enactment of the ministerial decrees used as guidelines throughout the reformed line agencies. The minister of one of the reformed line agencies also strived for employee reward policies to be approved in the parliament to support the implementation of performance allowance within the line agency. As a result, one of the reformed line agencies successfully tripled their organisational goal achievement in five years and was recognised as one of the best line agencies in Indonesia in 2013.

With regard to the line agencies that had not been granted status as reformed agencies, there is little evidence of vertical and horizontal fit. To some extent, however, vertical and horizontal fit can be seen in one of the line agencies in which HRM reform started internally in 2008. Although it has not been granted status as a reformed agency by the central agencies, this agency has made efforts to align its HRM practices to support the achievement of its goals. The fact that employee performance is aligned with reward and training, performance targets are aligned with the organisational goals, and technical training is aligned with the organisational needs demonstrates that vertical and horizontal fit is practised in this agency. The strong commitment of the newly elected governor and the vice governor towards HRM in this agency is also significant. Despite lack of knowledge on contemporary HRM by this agency compared to the reformed line agencies, strong commitment of the governor and the vice governor to making HRM reform a high priority has significantly increased the commitment of all employees to perform (Carina, 2015) and positive public opinion about the performance of this agency in delivering service to the public has been acknowledged (Arifianto, 2015).

By contrast, the other agency, which has yet to be granted status as a reformed agency, still manages its HRM practices in a manner similar to the old practices and there is little to suggest that vertical and horizontal fit is practised. The fact that the old HRM practices in the Indonesian civil service reflect the traditional HRM model demonstrate that vertical and horizontal fit cannot be expected in this agency. Lack of guidance from its HRM Department for the working units seems to show that there has been lack of knowledge of contemporary HRM and HRM may not be a priority of the leader. Based on a survey conducted by the Ombudsman in 2013, this agency was categorised as one of the poorest line agencies in delivering service to the public (Maharani, 2013). This finding supported the previous study by McCourt and Ramguty-Wong (2003) and Truss (2003) which acknowledged that knowledge of contemporary HRM and commitment from the top management promoted vertical and horizontal fit.

7. Conclusions

The study suggests that vertical and horizontal fit is practised in the line agencies which have been granted status as reformed agencies. Although the literature suggests that HRM devolvement is determinant to vertical and horizontal fit, the study indicates that vertical and horizontal fit, albeit limited, can still happen in a centralised HRM system, such as in the Indonesian civil service. Familiarity with contemporary HRM and strong support from the top leader has contributed to the prevalence of vertical and horizontal fit in the reformed line agencies. By contrast, there is little evidence that best fit is practised in the line agencies which have not been granted status as reformed agencies. Lack of knowledge on contemporary HRM is found as the impeding factor to the prevalence of vertical and horizontal fit. To conclude, this study has addressed the dearth of strategic HRM research in the civil service by providing empirical evidence on the applicability of the best fit approach in the Indonesian civil service.

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